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ABSTRACT

Higher education has increasingly turned to outsourcing to improve service in the face of declining resources. Outsourcing has traditionally been used to operate campus bookstores and dining services and has more recently become a legitimate option for additional campus functions, such as facilities operation, computer services, security, child care, and remedial classes. Advocates argue that the private sector provides service more efficiently and at lower cost than the public sector, which is unmotivated by profit. Critics of outsourcing point out its human resource consequences. Jobs may be shifted from the college or university to the contractor performing the outsourced function, resulting in decreased salaries or benefits. Contract staff may have less loyalty to the university than university employees. While research about outsourcing is scanty, anecdotal evidence shows that many institutions find outsourcing an effective means of reducing costs, upgrading program quality, and increasing customer satisfaction. A 1996 survey found that colleges and universities are increasingly turning to outsourcing, with more than one-half expecting to contract for more services in the coming years. Only 5.9% of colleges and universities surveyed produced all services in-house; the most popular outsourced services were food (74.3%), vending (65.3%), and bookstore operations (33.7%). (SLD)

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Outsourcing in Higher Education

Patricia A. Wood

What is outsourcing and what are the benefits?
The decade of the 1990s was one of constraint for higher education. Declining student enrollments, state budget cuts, decreased funding for research, and increased pressure to limit tuition growth resulted in diminished revenue sources for colleges and universities (Ender and Mooney, 1994). To remain competitive and to improve service in the face of declining resources, higher education has increasingly turned to several popular management approaches, including outsourcing (Jefferies, 1996).

Outsourcing, also referred to as contracting, is a form of privatization that refers to a university's decision to contract with an external organization to provide a traditional campus function or service. The contractor then either takes over the employees of the university, paying the group according to its standards, or replaces the university employees with its own staff (Ender and Mooney, 1994).

Outsourcing assumes that if an institution cannot provide a service or product at less cost than, and of equal quality to, an external provider, then it should purchase the service or product from an external provider. Advocates of outsourcing argue that the private sector provides service more efficiently and at lower cost than the public sector, which is unmotivated by profit (Jefferies, 1996). They point out that outsourcing to a contractor can reduce a college's or university's labor and benefits costs, provide a single point of accountability, and provide predictable costs; the resulting savings allows the institution to focus more resources on its core educational operations – teaching and research (Ender and Mooney, 1994). Colleges and universities are testing these theories, increasingly outsourcing more of their functions in an effort to reduce costs, increase service efficiencies, and boost income (Jefferies, 1996).

What functions are being outsourced?
Outsourcing has traditionally been used to operate campus bookstores and dining services. It has more recently become a legitimate option for additional campus functions, including facilities operation, computer services, security, child care, residence halls, teaching hospitals, remedial classes, and even entire institutions (Goldstein, Kempner, Rush and Bookman, 1993; Gilmer, 1997).

To some observers, there seems to be an announcement every week about a college being among the first to outsource an operation (van der Werf, 2000). For example, the University of Miami recently contracted with Strategic Distribution, Inc., to acquire all materials required for repair, maintenance, and operations at its main campus and medical center; Chatham College hired a contractor to run its library and hire most of the library staff (van der Werf, 2000).

Problems with outsourcing
Critics of outsourcing point out its human resource consequences. Jobs may be shifted from the college or university to the contractor performing the outsourced function, which may result in decreased salaries or benefits (Gilmer, 1997).

A recent experience at The University of North Carolina is a case in point. The University planned to outsource its housekeeping staff; consultants expected the contractors to pay the housekeeping staff less and to provide fewer benefits than the University offered them. The plan ultimately led to charges of racism since, in contrast to other University employees, the housekeeping staff was predominantly African-American (Gilmer, 1997).

Other critics feel that contract staff may have less loyalty to the university than if they were employed directly by the institution and express disappointment with the resulting inadequate service by contractors. Inadequate service by contractors can affect the campus community in myriad ways; uncomfortable teaching facilities, shortages of textbooks in the campus bookstore, and lack of skilled technical staff to manage computer networks are just a few possibilities.

Ender and Mooney (1994) suggest that the greatest barrier to outsourcing is lost jobs and the resulting negative impact on institutional morale. They offer a set of guidelines for mitigating the negative impact of outsourcing:

1) outsource management personnel only,
2) downsize the staff by attrition,
3) involve employees in selecting the contractor, and
4) re-bid the contract often.

Filling senior management positions with contract staff for a defined period of time, they say, can eliminate conflict inherent in outsourcing an entire operation. Existing staff can remain with the university while receiving training that may eventually enable them to move into the outsourced management positions.

Outsourcing success stories
According to Manuel Cunard, executive director of the National Association of College Auxiliary Services, college outsourcing is growing so quickly that there has been very little time to step back and determine its effectiveness (van der Werf, 2000). The privatization of college services is currently chronicled primarily through anecdotal evidence, and campuses nationwide continue to debate the merits of outsourcing (Gilmer, 1997). Though research about outsourcing is scanty, anecdotal evidence does make it clear that many institutions have found outsourcing to be an effective means of reducing costs, assuring financial results, upgrading program quality, gaining access to special expertise, increasing customer satisfaction, and obtaining capital for facility improvements (Dillon, 1996).

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George Mason University in Fairfax, Virginia and the University of Tennessee at Knoxville are two institutions that have used outsourcing to advantage. George Mason University is one of the nation's most aggressive contractors. The University has contracts, totaling more than $30 million, for 50 campus services and operations (Gilmer, 1997). The University of Tennessee at Knoxville contracts for the installation of blinds, carpet, ceilings, fences, and elevator maintenance. The University saves an estimated $565,000 per year through outsourcing all of its custodial services (Gilmer, 1997).

Rethinking outsourcing

Some institutions have outsourced campus functions only to realize that outsourcing was not the panacea they had hoped it would be. Consistency and cost issues were key in Whitworth College's decision to abandon outsourcing. The College virtually eliminated its communications office in the late 1980s when it outsourced the office, reducing its staff from seven to one. In 1992, a presidential task force reevaluated the situation and the College returned to a centralized on-campus communications shop. Lack of coordination was cited as the major problem with outsourcing, with wide gaps in quality and cost the result. The administration ultimately realized the importance of coordinated communications to the College's success since the communications office was tied into fund raising, alumni relations, recruitment and all other facets of campus life (Schreiber, 1994).

The University of Pennsylvania recently scaled back its contract with the Trammel Crow Company for operations and maintenance of its campus buildings. Professors at the University say housekeeping functions never improved and roofs still leaked. Penn and company officials agreed that the key flaw in the school's outsourcing strategy was that Trammell Crow was asked to maintain buildings in such bad repair that they were essentially unmaintainable (van der Werf, 2000).

How widespread is outsourcing?

Statistics about outsourcing in higher education are few, but the need for such data has been recognized. The National Association of College Auxiliary Services has recently opened a center to try to track overall figures for outsourcing in higher education (van der Werf, 2000).

Gilmer (1997) reports that a 1996 survey by American School & University found that colleges and universities are increasingly turning to outsourcing. More than one-half expect to contract for more services in the coming years. Only 5.9% of colleges and universities produce all services in-house; 62.4 % of colleges contract for four or fewer services; 31.7 % outsource five or more services. The most popular outsourced services include food (74.3%), vending (65.3%), bookstore operations (33.7%), custodial work (30.7%), and laundries (18.8%). Recent figures also show that the building of on-campus housing by private companies was a $500 million business in 1999, with no indication of a decrease in 2000 (van der Werf, 2000).

How should management decide whether to outsource?

Whether or not to outsource a function is not an institution's most important question. Instead, management should examine the full array of options and select the operating and management approach best for the institution. Focusing first on understanding how the functional area in question is currently operated and examining all its strengths and weaknesses enables the institution to make a fully informed choice. (Goldstein, Kempner, Rush and Bookman, 1993). A core set of issues and questions must be explored when institutional management is deciding whether to outsource any function. Rush, Kempner and Goldstein (1995) group these core "decision factors" into six categories:

1) Human Resources - How employees will be affected.
2) Financial - The direct and indirect cost to the institution.
3) Service Quality - How each alternative will meet campus needs.
4) Legal and Ethical Considerations - The level of risk and potential liability posed by each option, any tax ramifications, any potential conflicts of interest.
5) Mission and Culture - The effects of choosing an option inconsistent with the institution's culture and historical mission.
6) Management Control and Efficiency - The likely effect of each option being considered on the institution's ability to control the direction and priorities of the functional area.

The relative importance of these six decision factors will vary with the institution and among functional areas. However, regardless of the institution's size, location or affiliation, and no matter what functional area is under consideration, campus decision makers need to use a structured methodology when making the decision to outsource. Rush, Kempner and Goldstein (1995) also offer a ten-phase methodology for outsourcing which focuses on the following actions:

Phase 1: Identify Key Participants
Phase 2: Develop an Analytical Framework
Phase 3: Assess the Current Environment
Phase 4: Identify Customer Requirements
Phase 5: Develop an Operational Design
Phase 6: Identify Possible Alternatives
(Peterson's Contract Services for Higher Education (1995) provides information on various types of contract and outsourcing services available to colleges and universities.)
Phase 7: Review Legal, Ethical, and Community Considerations
Phase 8: Compare Proposed Operating Alternatives
Phase 9: Select the Preferred Alternative
Phase 10: Establish a Continuous Improvement and Assessment Process

Conclusions

The growing use of outsourcing in higher education reflects a general acceptance by campus administrators that it will reduce costs while continuing to provide essential university services (Jefferies, 1996). Successfully outsourcing a function requires careful, comprehensive evaluation and planning by management. The answer to whether or not to outsource is what best serves the institution--not only what is most cost efficient, but also what will provide the most consistency, timeliness and overall quality in meeting the college's or university's goals (Schreiber, 1994).

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